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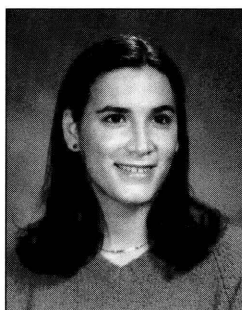
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THE RESTRUCTURING OF THE GERMAN WELFARE STATE: POLITICAL SOLUTIONS TO SOCIAL PROBLEMS

Meredith Abrams¹



Introduction

The German welfare state is one of the most comprehensive in the world. It is a huge safety net, one that encompasses all citizens and provides them with benefits rarely matched by other countries. Health care is provided universally. Pensions are protected with a vengeance by political leaders who value them as a key to re-election. Unemployment compensation is so generous that some citizens find they receive almost the same income on the dole that they would if they had a job. This system, as the Germans are now realizing, may be too generous to survive.

I begin this paper with a brief review of the evolution of Germany's welfare state in an attempt to explain why this system is so integral to modern German politics. I review the major

political parties and discuss their views of the welfare state and the improvements that each suggests. I point out the fact that most of the elected officials are trying hard to avoid the difficult decisions involved because they fear that any long term solution will cause too much short term pain for the voting public. I also discuss the most important aspects of the social system, concentrating on problem areas and proposals that have been suggested to resolve them. Finally, I analyze the impact of the problems of the welfare state on the German political system.

The Early Beginnings of the Welfare State

In the late 1800s Otto von Bismarck became the first leader to unite the many German states and place them under one empire. A political conservative, he was also the first European leader to support a comprehensive scheme of

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social security. His plan offered the worker insurance against accident, sickness, and old age. This Bismarckian "socialism" later became a model for most of Europe. ("Bismarck," p. 719) Many aspects of his original plan are still intact in modern Germany. Although there were several reasons attributed to his establishment of the welfare state, one pressing influence was competition with the party of the Social Democrats. ("Bismarck," p. 719) Germany's modern conservative party, the Christian Democrats, is also currently fighting the Social Democrats over the future of the welfare state.

The Christian Democrats

The Christian Democratic Union/Christian Social Union (CDU) and the Social Democratic Party (SDP) are the two main parties of the German electoral system. To understand each party's background, it has been said that at party meetings the SPD favors beer to the CDU's fine wine. (Ash, p. 20) Having been in power for the past 15 years, the CDU and its leader, Chancellor Helmut Kohl, have set the tone for the recent restructuring of the welfare state.

The CDU is a conservative, nationalistic party. The platform focuses on social market economic principles, providing "a sort of capitalism with a heart." ("The Party System..." p. 87) Germany's "social market" economy is based on free market principles; but labor, wage and regulatory issues are largely decided by a broad consensus of government, business, and labor. (Germany, 1998) In keeping with the social market theory, Kohl's plans for change have not been drastic. As a modern conservative leader, he is often compared to former British Prime Minister Margaret Thatcher and former U.S. President Ronald Reagan, though Kohl is said to be much less radical in his approach to the welfare problem. ("German Unemployment...") Instead of drastically reducing social benefits, Kohl's plans have been an attempt to form a compromise between the demands of society and the limits of state funding. In 1996 he established a 50 point plan as a means of increasing labor market flexibility, reducing taxes, and cutting expenditures on entitlement programs. (Germany, 1998) But even this cautious plan was stalled in the legis-

lature and in the social arena. Germany still has the shortest work week of any industrialized country, the longest vacations, the highest industrial wages, the oldest students and the youngest pensioners. (Murphy) Debt and unemployment are high, and the cost of bringing the former East up to modern standards has been a staggering blow to the German economy.

The CDU has been able to retain power in subsequent elections after the reunification, but many believe that the party's hold is weakening. Kohl and other party leaders are faced with a most uncomfortable situation. The excitement of unification did not last long; reality set in as soon as the Christian Democrats realized they were faced with the difficulty of rebuilding East Germany's economy. (Conradt, p. 90) To retain power the CDU must keep the people happy, which means few reductions in social benefits. But unless they are willing to allow Germany to go bankrupt, the CDU must pass and enforce legislation to restructure the sacred welfare state.

The CDU still believes that the current system can be salvaged. German Labor Office president Bernhard Jagoda suggests that by the year 2000 Germany could create two million jobs if wages were to keep steady with the rate of inflation. In addition, about 40 percent of current German overtime hours would have to be converted into new jobs. (Boudette) The CDU also plans to reduce social security contributions to 40 percent of gross wages (shared equally by employees and employers) in 2001, down from 42 percent in 1997. Critics such as Larson Flemming, Deputy Director of Research at the International Monetary Fund, argue that the only way to do this is through a reform of the pension system, a reform not likely to pass through the consensus government.

The CDU has found it extremely difficult to act on any proposals it brings to Parliament. When it does try to implement change, the powerful German labor unions usually get angry. For instance, in April 1996 Kohl proposed a \$33 billion cut in public spending in exchange for government support for a job creation program. But union leaders were outraged and refused to cooperate. (Templeman, p. 60) In the past, unions were not very concerned about job creation for their members because unemploy-

ment benefits in Germany were extremely generous. As a result, they were free to fight tooth and nail for increased wages for union members. In 1996, however, tighter economic situations forced labor unions to face reality. The unions accepted smaller or no real wage increases later that year and again in 1997. It appears that threats by industries to move out of Germany have sparked fear in the unions, forcing them to be more compromising. Labor unions have also allowed firms to drop out of employer associations so that they are no longer bound by the industry-wide terms of employment. (Germany, 1998)

The Social Democrats

The CDU's strongest political rival is the Social Democratic Party (SPD). The SPD has traditionally had strong ties to labor unions, but it has also tried to extend its following to include middle-class voters by adopting a more flexible party platform. (Hancock, p. 82) In 1989 the SPD established itself as a "catch-all" party. Its goal is to be viewed as a party with broad electoral appeal, catering particularly to unions and to the working class. The SPD has made a conscious effort to move toward the middle of the electoral spectrum in the hopes of attracting more voters and with the goal of taking power in the Fall 1998 election.

Having been out of power for the past 15 years, the SPD has had the chance to criticize proposals for welfare restructuring implemented by the CDU, without having to enact proposals of its own. Joining with the powerful German unions in opposing the CDU spending package announced in 1996, the SPD, which controls the upper house of Parliament, is expected to finish out the 1990s continuing to reject any steps intended to trim the welfare state. (McCathie) The SPD has managed so far to stay away from any real commitment to change. If it does gain power in the fall of 1998, it will be forced to test its own ideas. In the meantime, however, the party is able to sit back and criticize while only occasionally offering minimal suggestions.

Because of its union ties, the SPD has concentrated most of its attention on the unemployment aspect of the welfare state. Oskar

Lafontaine, a leading figure in the SPD party, has accused the government of "seeking to sacrifice Germany's welfare state to globalization." (Norman, p. 2) His argument is that the CDU has been willing to reduce the number of available jobs in order to encourage business investment. Rudolf Scharping, parliamentary leader of the SPD, also argues that the CDU has not done enough to reduce unemployment levels. In an interview with the *Berliner Zeitung*, Scharping said, "The jobless rate could swiftly be cut by reducing the massive number of overtime hours being worked, by stricter measures to cut the number of illegal aliens working in Germany, and by boosting part-time jobs." ("Jobless Record...") He pointed out that in 1996 Germans worked a record 1.8 billion hours of overtime. Scharping argued that "cutting this figure would create 300,000 to 400,000 new jobs." ("Jobless Record...")

Critics in the CDU counter this proposal with the argument that cutting overtime hours will drastically reduce salaries of many of the Germans who are already employed. The CDU concedes that there is an excess of overtime wages, but it has been unable to enact a policy aimed at solving the problem. One of the CDU's biggest obstacles is union protest to any reduction to the salaries of employed Germans. Another proposal offered by the SPD to combat the increasing jobless rate involves reducing the rate of social welfare contribution required for corporations and cutting taxes for middle and low-income employees and people with families. ("German Unemployment...")

One major difficulty the SPD party faces is the determination of leadership. An internal party battle has raged within the SPD since 1995. In November of that year the party dismissed its 1994 candidate for chancellor, Rudolf Scharping, and returned to its 1990 candidate, Oskar Lafontaine. ("Five-Year Political...") More recently, Gerhard Schroeder has been gaining in popularity in the SPD and in the country at large. The fight over control of the party has led to public dispute and possible division in the party. Because of the socialist victory in England in the mid-1990s, analysts predict that if the party leadership is decided before the 1998 election, the SPD has a very legitimate chance of gaining control for the first time in over a decade.

The German Welfare State

The welfare state is politically important because it involves social benefits that are ardently supported by many German voters. The German welfare state was built around the four pillars of unemployment insurance, accident insurance, health care, and pensions. In 1995 a fifth pillar was established, one which covers long term care for the elderly. The system is funded by payroll contributions that are divided into a wide range of dedicated insurance funds administered by both employees and employers. (Suzman, p. 2) As a result, Germany, like the United States, suffers the problem of "paying today's contributions to yesterday's workers." (Suzman, p. 2) And again like the United States, there is considerable doubt among the German people about the future promises of the welfare state. (Protzman)

As is true with most modern industrialized nations, Germany suffers from limited resources. Because the system is so generous, many analysts look to the welfare state as the first and most obvious area for possible spending reductions in the German economy. Over the past 50 years the government has vastly increased its welfare budget, rising from 27 percent of total public spending in 1950 to 47 percent in 1994. ("No Escape" p. 5) Unless drastic reform takes place in the near future, the share of public spending devoted to the welfare state could rise above 50 percent in the near future.

In 1995 Germany's non-wage labor costs accounted for about 45 percent of total hourly labor costs. Non-wage labor costs are the supplements added to an employee's hourly wage which are used to cover his social benefits. This is an extremely high percentage, demonstrated by the fact that non-wage labor costs in Germany are five times those of Portugal, twice those of Spain and Britain, and 60 percent above those in the United States. (Stelzer, p. 16) As a consequence, many firms, including Mercedes Benz, BMW, Hugo Boss, and Siemens, are leaving Germany to find less expensive labor elsewhere. Though the political coalitions in power acknowledge the problem, they appear unwilling to risk the votes necessary to make real change. Neither the government's proposed tax cuts nor the SPD's counterproposals promise

any radical change. Despite the current crisis, it is highly unlikely that there will be a significant shift away from Germany's welfare-oriented, social market economy. (Mangasarian)

The problem with the welfare state did not become a crisis until after the reunification in 1989. The costs associated with the reunification have been a huge drain on the German economy. West Germany has spent more money bringing the former East up to the standards of the West than was spent implementing the Marshall Plan for Germany's WWII reconstruction. West Germany transferred about \$108 billion in 1995, an amount equivalent to about 40 percent of Eastern Germany's GDP. Aid granted by the Marshall Plan in the late 1940s, by contrast, averaged less than 2 percent of West Germany's annual output during that time period. ("Eastern Germany...", p. 21) Although admittedly expensive, it is not merely the cost of reunification that is troubling the welfare system. The problems in Germany's welfare state began well before East and West united in 1989. While other Western nations began to trim back state benefits during the 1980s, Germany instead offered all its previous benefits as a welcome-back present to the newly reunited East. Had the Germans used the reunification as an opportunity to restructure their welfare state rather than to expand it, the crisis might have been avoided. As it is now, government tax revenues are falling short of what is required, while demand for social benefits only grows larger. (CNN Newsroom)

Unemployment

A significant portion of German government taxes is immediately absorbed by German unemployment benefits. Unemployment is understandably one of Germany's gravest concerns. The jobless rate is expected to hover around 11.5 percent in 1998, meaning that almost 4½ million eligible German workers will not have jobs. ("Euro Zone...") The unemployment rate was higher in 1997 than it was in the summer of 1933, right after Hitler came to power. (Gimson, p. 10) CDU Labour Office president Bernhard Jagoda admits that there is a crisis, and is asking for urgent governmental action to combat unemployment. ("German Unemploy-

ment...") In order to reduce Germany's unemployment levels, many experts estimate that the country will need sustained GDP growth at a rate above 2.5 percent. Unfortunately this does not seem likely to happen, as real growth for 1997 is estimated at somewhere between 2 - 2.5 percent. ("Germany: 1998...")

One reason why real growth cannot occur at the necessary levels is that the German unemployment insurance system is so generous. In 1994, an unemployed man with two children received benefits totaling about 71 percent of his previous income; in the United States, the comparable figure is 55 percent. ("No Escape," p. 5) For many Germans, there is little incentive to give up their unemployment benefits. In 1996 a married worker with two children in a low income job would earn a monthly gross salary of about \$1,810 a month. According to the Bundesbank, after deducting tax and welfare insurance and adding child and other benefits, take-home pay would be about \$1655. If instead of working she claimed unemployment benefits, she would lose approximately three dollars, receiving a monthly income from the government of about \$1652. ("Germany: German Lower House...") High marginal tax rates (75-90 percent) also act as a deterrent to unemployed Germans returning to work. Moreover, most of Germany's unemployment benefits and social assistance programs have no time restrictions. As a result, long term unemployment (12 months or longer) was 48.3 percent in 1995, as compared to only 9.5 percent the same year in the United States. (Larson)

More and more Germans in this situation are consequently opting to leave their jobs and take the unemployment benefits. This unwillingness to work can also be attributed to the refusal of many Germans to accept menial jobs. Experts argue that there is room for job creation in the underdeveloped service sector, but also concede that most Germans would shun the kind of low-wage service jobs that this type of expansion would offer. (Protzman) The argument persists that one reason so many Germans are out of work is that they are simply no longer willing to work hard. They claim that the system of high unemployment benefits undermines the self-reliance and willingness to work

once displayed by the unemployed. (Mares, p. 24) Many believe that Germany's generous unemployment benefit system, which functioned well during the post World War II industrial period, cannot continue in a nation that seems to have lost its innate desire to work.

What is more, the drastic changes that have occurred in Germany in the years since reunification have resulted in the loss of many jobs. According to a report issued by the Federal Statistics Office, Germany lost a total of 504,000 jobs during 1996. One-fourth of those losses were in Eastern Germany. ("German Unemployment...") This has been an ongoing problem, as the report also cites a loss of over two million jobs over the previous five year period. Germany's long time Chancellor, Helmut Kohl, recently pledged to "cut the jobless rate in half by the year 2000" ("German Unemployment..."), a promise most Germans do not believe he will be able to keep. Warnings about future unemployment continue to pour in, and most analysts agree that this situation is only likely to worsen in the near future.

The unemployment statistics become more frightening when one realizes the huge amounts of money being spent on those without work in Germany. Keep in mind that the generous welfare system leaves those without jobs often without worry since many of the benefits last for an indefinite period. Although this knowledge may calm the fears of those about to lose work, with fewer people employed the revenue coming into the system is steadily declining. More is being required of a system that is receiving less and less revenue. The increase in unemployment benefits has also been a major contributor to the slower rate of real GDP growth in Germany. ("Germany, 1998...")

The costs associated with unemployment insurance were not seen as a major problem during the initial stages of reunification. The working people in the East paid the same percentage of their income to the welfare state as those in the West. Because their income was less, fewer revenues were paid to the social security system in the East. This was not anticipated to be a problem, however, because as benefits are related to income levels, social security expenditures in the East were expected to be lower too. Expectations were severely

lowered, however, when it was realized that at the beginning of the reunification there was a deficit in the East's social security system. In the past, the administrators in the East were a few months behind in their payments. When the nation reunited, funds were insufficient to meet obligations. Additionally, it was decided that future revenues should be collected through tax revenue offices. This might have been a poor decision in light of the fact that there was no well developed tax revenue system in Eastern Germany prior to reunification. (Cornelsen, p. 230) Deficits increased rapidly, and the transition was not nearly as smooth as had been anticipated.

This problem is especially alarming since the overhaul of most German businesses in the East resulted in huge declines in employment. Under the previous communist system, everyone had a job, whether or not the work was actually productive. But now that the East functions under a capitalist system, the only jobs available are those that the market considers necessary. For example, one machine factory in the East used to employ over 10,000 people, but bankruptcy and the streamlining of the formerly communist run industry brought that number down to a few hundred. (CNN Newsroom) This sad story is repeated all over the former East.

Female workers have found it more difficult than males to find new jobs in the East. The unemployment rate in the East for women is double that for men. ("Eastern Germany..." p. 22) Most women held jobs under the communist reign and grew accustomed to viewing their job as a way to contribute to society. Under the new capitalist system, companies have found it easier to offer the few jobs available to men, perhaps because it is assumed that it is the male who carries the responsibility of supporting the family. Many women who have a true desire to work, not to mention experience in the workforce, are essentially cut out of the current job market.

Creating new jobs to replace those lost in the scramble of reunification is the easiest solution for many of these problems, but new job creation has not been a strong point of the German economy over the past 20 years. (Protzman) Some experts have concluded that

it is time for drastic change in the structure of the German economy. Claus Offe, Director of the Center for Social Policy at the University of Bremen, agrees. As he argues, "The fact is that many of these jobs are gone forever. The question for social policy is no longer how do we get full employment, but how do we organize a society in which working is normal but a large segment of the society has no work." (Protzman) But a real drive for change cannot be found anywhere in the near political future. Neither party seems willing to take the challenge and offer a plan for real change.

Health Care

Another generous aspect of the German Welfare State is the health care system, which guarantees comprehensive benefits to all. These benefits come regardless of ability to pay. (Murphy) Almost every claim of medical need is generously met. Premiums are based on an individual's income and are paid for through mandatory payroll deductions. Risk profiles do not play a role in how much the individual is asked to pay. (Schmid) Everyone is promised health care, and the government pays for a very large percentage of medical bills.

Comprehensive health care was emphasized in both former East and West Germany and is still considered a crucial part of the comprehensive welfare state. However, there were some differences between the two states in the care offered before reunification. In Eastern Germany the entire burden of health care had fallen on the government; all benefits were paid by the social security system beginning with the first day of illness. In the West, in contrast, some of the responsibility falls upon employers. Costs associated with the first six weeks of sickness are covered by the employer; after that the social insurance system takes over. As of January 1991, the Eastern half of Germany adapted to the Western style of health care. (Cornelsen, p. 227-28)

Despite the contributions of the employers and employees, the cost of the system is a considerable drain on the German welfare state. Many experts argue that one effective way of reducing Germany's welfare state is to cut health benefits, but there is much disagreement as to

which benefits should be reduced. Health care reforms have been successful in the past. For example, in 1993 restrictions on doctors' formerly limitless ability to prescribe medicine were unexpectedly successful, cutting government medical spending by 2.7 percent in the first six months of the year. ("No Escape," p. 5). Another proposal, this one from the CDU, called for the introduction of competition into the national insurance system as a method of relieving the burden on the German government. (Schmid)

In 1992 Kohl and the CDU proposed that workers who take sick leave should not be paid on the first day of illness, with the idea that the money saved could be used to cover long-term nursing care for pensioners. (Murphy) By 1996 Kohl's government planned to reduce sick pay to 80 percent of the basic wage, down from 100 percent. (Norman, p. 19) It was hoped that these and other changes would cut federal government spending by about \$16.2 billion the next year and reduce spending by the state pension and health insurance funds by an additional \$12 billion. The federal states, or *Länder*, were also held responsible for cutting another \$15 billion. (Norman, p. 2) But these moves were protested by the powerful unions, who were able to effectively stop these plans through collective bargaining tactics. Additionally, with each welfare reform, it seems that the German government wants to include another expansion in benefits. In 1993, along with the proposal to restrict the number of prescriptions written by doctors, the government also planned to introduce a new nursing care scheme for the elderly, meaning that the largest reform to the German welfare state in recent years actually increased the cost of welfare. ("No Escape," p. 5)

A significant part of the problem is the strong German identification with their health care system. For most Germans the existing social insurance system is more than just a useful financial cushion; it is also part of the country's post-war national identity. (Suzman, p. 2) Reform, in order to be effective, will most likely have to be drastic. One controversial proposal submitted by employers suggests cutting sickness benefits. Currently benefits include full pay for six weeks paid by employers, and then 80 percent of full wages paid by one of the insurance

funds. (Suzman, p. 2) The proposal to reduce these benefits will save money, but does not address the problem of the unemployed. When jobless workers get sick, the government still carries the full burden of responsibility.

Another area being targeted for reform is the widespread use of spas: health retreats used to revitalize tired Germans and promote future good health. The German health care system is rooted in the idea of preventive medicine. Part of the health care package offered to all citizens is the use of these spas for four weeks every three years. (Suzman, p. 2) According to Alexander Gorbing, marketing director for a spa in Bad Neuenahr, the spa system is based on a twofold philosophy. First, state pensions finance treatment for employed people as a preventive measure to keep them well enough to work until their age of retirement. The second half of this philosophy has state health care funds being used to keep older people in good health so that they do not lobby for more expensive health care. (Cowell)

In 1996 the CDU proposed that spa benefits be reduced to three weeks every four years. This reform would save the government about \$5 billion a year. In addition, the German government plans to reduce the amount of health benefits granted to offset the price of the spas. Many Germans take their vacation at these spas and enjoy the curative treatments at a state subsidized bargain basement price. Today a state-subsidized spa guest pays about \$8 a day for his or her treatment. The CDU wants to double that price, a still very generous offer. The market value of a spa retreat, according to Rainer Mertel, director of Bad Neuenahr's private Spa Administration, is closer to \$250 a day. (Cowell)

Although these health care reforms are likely to produce significant savings, politicians are unwilling to campaign strongly for them. One reason is that the unions oppose these reforms. Micheale Gottfried, a spokeswoman for VDAK Association of Health Insurance Funds, which represents seven of the biggest public insurers, argues that the reforms "will inject free-market economics into a tightly regulated sphere that has been virtually immune to competition. What will emerge is a 'two-class' system in which coverage is cheaper for young and healthy people and costlier for those

who need it most.” (Schmid) The SPD, with its strong labor ties, has generally supported the union opposition to cuts in health care. The CDU is also unwilling to make substantial cuts, mainly because of its ties to the elderly. Older people are more likely to get sick, and as a result are more likely to vote against a party that vows to cut health care benefits.

Pensions

The existing pension scheme is another drain on the welfare state. The CDU has long been popular among elderly citizens and has been unwilling to propose significant cuts that would anger this loyal voting base. As a result retired people are very well cared for in Germany. Since the reunification, the CDU has made great strides in increasing the pensions of the former East German citizens, making them comparable to those received in the West. In 1991 pensions in East Germany were raised 15 percent, bringing the payments up to over 70 percent of those workers’ former net incomes. (Cornelsen, p. 228)

While the welfare state may be struggling to pay for the elderly now, the future looks even more bleak. Germany’s baby boom ended in 1970, earlier than in most other industrialized nations. According to Meinhard Meigel and Stephanie Wahl of Bonn’s Institute for the Economy and Society, by the year 2030 the population will fall by at least 15 million people (nearly the size of Eastern Germany), unless there is a now-unimaginably large increase of immigrants. (“No Escape,” p. 5) Thirty-eight percent of the German population in 2030 are likely to be over 60 years old, almost twice the proportion today (20 percent). The increased welfare-related costs of this older population will be paid by a shrinking group (46 percent, down from the current 60 percent) of economically productive people. (“Germany: Survey...”) Analysts fear a situation similar to that predicted for the United States: that in the future there will not be enough working age people in Germany to provide for the care of the elderly.

One of the few proposals mentioned for reform in this area is the plan to raise the pensionable age for men and women. If implemented, this reform would ease the burden on

pension providers but at the same time may make it harder for young Germans to secure jobs in the future. (“Comment & Analysis...,” p. 19) If this plan takes effect, it is likely that employers will be reluctant to promise job security into retirement knowing that the cost of such promises would be significant.

The German Electoral System

Analysts, citizens, and German politicians alike agree that the welfare state is in dire need of reform. A major obstacle to change, however, appears to be political reluctance. Elected German leaders fear revenge in the ballot box for any reform that hurts before it helps. To gain an understanding of the politicians’ perspectives, it is necessary to take a closer look at the German electoral system.

From the U.S. vantage point, one of the most unfamiliar aspects of the German political system is the country’s semi-proportional representation electoral system. Germany’s electoral system is proportional in its results, though not in its mechanics. Proportional systems tend to involve more than two major parties and usually result in coalition governments. Rather than the “winner take all” system the U.S. follows, in a proportional representation (PR) system the parliamentary seats are divided according to the portion of the votes won by each party. One-half of the German parliamentary seats are apportioned through the PR system, while the rest are distributed through “winner take all” district voting. The use of a PR system results in more parties being represented in the legislature and more voices being heard when policies are discussed. Arend Lijphart, a political scientist who has extensively studied various electoral systems, believes that “policies supported by a broad consensus are more likely to be successfully carried out and to remain on course than policies imposed by a ‘strong’ government against the wishes of important interest groups.” (Lijphart, p. 173) While in the short run a stronger presidential system may appear more effective, Lijphart argues that over the long term a PR system is the most inclusive electoral system and therefore likely to be more effective.

Germany’s electoral system requires that

parties meet a minimum threshold level, five percent, in order to be included in Parliament. This threshold can be avoided in the PR half of the electoral system if a party wins three district seats. As a result, the PDS (the former Communist Party of East Germany) received 4.4 percent of the seats in the last election but won more than three district seats. The party now holds several dozen seats in Parliament through the combination of district voting and the PR system. The threshold provision was included in the electoral system as a means of preventing a recurrence of the fractured politics of the Weimar Republic, the political regime that was followed by the rise of Hitler and fascism in Germany. (Ash, p. 22) The failure of the Weimar Republic is mainly attributed to spreading governmental power among too many parties. The current system allows for a variety of political voices to be heard, but requires that a party gain a significant amount of support before it becomes a formal member of the government. Because no one party holds all authority, it is sometimes difficult to make drastic changes in policy. This problem is most apparent when the country is in an economic crisis, a time when drastic moves are often necessary. Despite this criticism analysts argue that there is no reason why a consensus-based system, such as the one used in Germany, should be unsuccessful in difficult economic times. As long as it is reasonably flexible, a consensus-based country can overcome obstacles by dividing the burden of responsibility among several political parties. ("Survey; Germany..." p. 5) If the government can find a way to spread the responsibility to all major parties, the problem of restructuring the welfare state might be resolved. Though this is theoretically feasible, it appears that German political parties are unwilling to share the pain, and instead seem united in their goal of avoidance.

Conclusion

Welfare restructuring has become a more urgent problem because of Germany's participation in the European Union. CDU Finance Minister Theo Waigel has already admitted that the government will find it very difficult to meet a key condition for the country to adopt the euro: the German overall public debt must not exceed 60 percent of GDP. ("SPD Blasts...") Waigel has supported social welfare spending cuts in order to help reduce the public debt, a move the SPD has loudly criticized. In May 1997 German officials revealed a shortfall of \$10.6 billion in public revenues. (McCathie)

The welfare system first established by Otto von Bismarck in the late 1800s can no longer function in the modern era. The Germans simply cannot afford the system; both their financial and psychological resources are heavily drained. If they want to remain competitive in today's world, if they want to enjoy the benefits of the euro, Germany must be willing to reduce the size of its welfare state.

The welfare state is, however, a vital part of Germany's government and its history. It has functioned as a valuable safety net, providing relief for thousands of workers who have suffered the perils of unemployment. The welfare state also serves as a safety valve, calming the fears of those without work, ensuring that their loss of employment does not result in the same anger that previously led to Hitler's rise to power. Health care and pension insurance are also important to the German people, and experts provide a compelling argument for restructuring these benefits. It is likely that some of the recommended changes could provide a more efficient use of allocated benefits and save the German public billions of marks. If reforms are not implemented, however, the German government may eventually bankrupt its system through its own generosity.

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